

Message Text

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PAGE 01 OTTAWA 04544 162305Z

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TAGS: EWWT, CA

SUBJECT: ST. LAWRENCE SEAWAY TOLLS

REF: OTTAWA 4520

1. THIS CABLE SUPPLEMENTS REFTEL REPORT ON TCO'S NOVEMBER 12 CONVERSATION WITH PAUL NORMANDEAU (PRESIDENT, ST. LAWRENCE SEAWAY AUTHORITY) AND SUGGESTS IN PARA 6 POINTS FOR CONSIDERATION IN DEVELOPING USG RESPONSE TO GOC INITIATIVE ON TOLLS.

2. DURING NOVEMBER 12 CONVERSATION NORMANDEAU EXPLAINED THE BASIS OF HIS PROGNOSTICATION THAT AFTER THE 1977 OR 1978 TOLL INCREASE, NO FURTHER UPWARD ADJUSTMENT ON THE LAKE ONTARIO - MONTREAL SECTOR WOULD BE NECESSARY FOR APPROXIMATELY FIVE YEARS. HE INDICATED THAT HIS STAFF HAD MADE VERY GOOD PROJECTIONS OF LIKELY TONNAGE INCREASES OVER THE PERIOD, THAT HE HAD PARED HIS ORGANIZATION SIGNIFICANTLY IN RECENT YEARS, AND THAT HE HAD A FIRM CONTROL OF COSTS. WHEN QUERIED ABOUT POSSIBLE INFLATION IN THAT PERIOD, HE STATED THIS HAD BEEN FULLY TAKEN INTO ACCOUNT AND HIS FIGURES WERE BASED ON ASSUMPTIONS OF A 3-4 PERCENT INFLATION RATE IN THE UNITED STATES AND A 6-8 PERCENT RATE IN CANADA OVER THAT PERIOD.

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PAGE 02 OTTAWA 04544 162305Z

3. NORMANDEAU ALSO REFERRED TO THE 1959 AGREEMENT BETWEEN THE TWO GOVERNMENTS ESTABLISHING THE TOLL STRUCTURE. HE INDICATED THAT ITS SUBSTANTIVE PORTION HAD BEEN AGREED DIRECTLY BY THE TWO SEAWAY ENTITIES AND - SO FAR AS THE RECORDS SHOWED - HAD BEEN CONSIDERED BY CANADIAN EXTAFF AND THE U.S. STATE DEPARTMENT IN ONLY A PERFUNCTIONARY MANNER. THUS, IT WAS CHARACTERIZED BY THE ABSENCE OF A SPECIFIC PROVISION FOR TERMINATION OF THE AGREEMENT. HOWEVER, SINCE ITS TERMS -- PARTICULARLY IN THE LIGHT OF A GOC LEGAL OPINION THAT THE WELLAND TOLL SYSTEM WAS INCLUDED -- WERE NOW UNACCEPTABLE THE GOC HAD DECIDED IT COULD NO LONGER BE BOUND THEREBY. ALTHOUGH THERE WAS NO REQUIREMENT THAT ANY SPECIFIC PERIOD OF NOTICE BE GIVEN, THE GOC HAD DETERMINED THAT THE USG BE GIVEN THE COURTESY OF A ONE YEAR NOTICE. AS INDICATED REFTTEL THAT WOULD BE ISSUED ABOUT DECEMBER 31 UNLESS THE USG QUICKLY ACCEPTED THE TWO BASIC DEMANDS OF THE GOC.

4. WITH RESPECT TO TACTICS, HE SAID IT HAD BEEN DECIDED THAT THE FIRST GOC DEMARCHE WOULD BE ORAL BUT MIGHT BE FOLLOWED UP BY A PAPER IN THE NEAR FUTURE. WHEN TCO INFORMED HIM THAT OUR REPORT OF THE MCKINNEY CALL HAD NOT MENTIONED THE DECEMBER 15 AND DECEMBER 31 DATES, HE WAS VERY SURPRISED AND SAID THAT WAS SUPPOSED TO HAVE BEEN DONE.

5. COMMENT: IT IS, OF COURSE, DIFFICULT TO PREDICT COST TRENDS FIVE YEARS INTO THE FUTURE WITH ANY DEGREE OF PRECISION. HOWEVER, THE EMBASSY THINKS IT ENTIRELY POSSIBLE THAT SEAWAY OPERATING COSTS WILL INCREASE MORE RAPIDLY THAN THE GENERAL RATE OF INFLATION. A GLANCE OF SCHEDULE A OF THE 1975 REPORT OF THE ST. LAWRENCE SEAWAY AUTHORITY (FORWARDED RECENTLY UNDER CERP) SHOWS THAT LABOR COSTS (SALARIES AND BENEFITS) REPRESENTED APPROXIMATELY 70.8 PERCENT OF OPERATING EXPENSES FOR THE FIFTEEN MONTH 1975/76 ACCOUNTING PERIOD, UP TWO POINTS FROM THE 12 MONTH 1974 ACCOUNTING PERIOD. (THESE FIGURES RELATE TO TOTAL OPERATIONS OF THE AUTHORITY, INCLUDING OTTAWA HEADQUARTERS. LABOR COSTS ON THE LAKE ONTARIO/MONTREAL SECTION ALONE REPRESENTED ABOUT 75 PERCENT OF THAT SECTION'S OPERATING EXPENSES IN 1975/76.) GIVEN THE MILITANCE AND GROWING STRENGTH OF CANADIAN PUBLIC SERVICE UNIONS, THERE IS POTENTIAL FOR SIGNIFICANT LABOR COST ESCALATION, AND CONSEQUENT UNANTICIPATED INCREASES IN TOTAL OPERATING EXPENSES. IN THIS EVENT AND IF THE LIMITED OFFICIAL USE

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PAGE 03 OTTAWA 04544 162305Z

USG HAS AGREED TO AN ANNUAL REVIEW OF TOLLS, WE COULD BE FACED WITH GOC DEMANDS FOR UPWARD ADJUSTMENTS TO MAINTAIN FULL COST RECOVERY EARLIER THAN END OF FIVE YEAR PERIOD ENVISAGED BY NORMANDEAU.

6. RECOMMENDATIONS: (A) IN DEVELOPING U.S. RESPONSE TO THIS CANADIAN INITIATIVE EMBASSY SUGGESTS THAT WASHINGTON AGENCIES CONSIDER WHETHER FOLLOWING RELATED MATTERS MIGHT USEFULLY

BE INTRODUCED INTO NEGOTIATIONS AS "QUIDS" FOR ANY U.S.

ACCESSION TO GOC DEMARCHE:

-- CORPS OF ENGINEERS WISHES TO EXTEND WINTER NAVIGATION PROGRAM FROM GREAT LAKES THROUGH UPPER ST. LAWRENCE. WE UNDERSTAND THIS MAY REQUIRE BILATERAL AGREEMENT AND CORPS HOPES FOR SUCH AGREEMENT DURING 1977. PERHAPS NEGOTIATIONS COULD BE DOVETAILED WITH TOLL NEGOTIATIONS.

-- OTTAWA A-32 OF JANUARY 23, 1974 REPORTED GOC DISCONTENT WITH THE HIGH COSTS IT IS INCURRING IN CONNECTION WITH THE WELLAND CANAL AND IN MAINTAINING THE ST. LAWRENCE RIVER FROM MONTREAL DOWNSTREAM. THERE WAS A SUGGESTION AT THAT TIME THAT THESE COSTS TO CANADA FOR BOTH CANAL AND RIVER WERE DIS-PROPORTIONATELY BENEFITING THE UNITED STATES, AND THAT A REGIME OF USER CHARGES MIGHT BE APPROPRIATE FOR THE LOWER ST. LAWRENCE AS WELL AS THE WELLAND. ALTHOUGH EMBASSY HAS NOT HEARD ANY DISCUSSION OF THE LOWER ST. LAWRENCE THEME FOR OVER TWO YEARS, GIVEN THE 1975 NATIONAL TRANSPORTATION POLICY STATEMENT AND ITS GENERAL EMPHASIS ON COST RECOVERY, IT MIGHT BE APPROPRIATE OF THE USG TO SEEK ASSURANCES REGARDING THE MAINTENANCE OF PRESENT TOLL-FREE ARRANGEMENTS FOR VESSELS UTILIZING THE ST. LAWRENCE.

(B) PRESENT SEAWAY TARIFF ASSIGNS ONE RATE TO ALL FORMS OF BULK CARGO AND ONE RATE TO ALL FORMS OF GENERAL CARGO. WASHINGTON AGENCIES MAY WISH TO CONSIDER WHETHER TOLL REGIME DIFFERENTIATING BETWEEN COMMODITIES WOULD BE IN U.S. INTEREST. IF SO WE MIGHT ARGUE THAT IF HIGHER TOLLS ARE GOC OBJECTIVE, CANADIAN GOODS SHOULD BEAR THE BRUNT. DETERMINATION WOULD REQUIRE COMMODITY-BY-COMMODITY ANALYSIS TO DETERMINE WHERE BALANCE OF ADVANTAGE LIES ON, FOR EXAMPLE, WHEAT, IRON ORE, COAL. GOC COMMISSIONED CARR REPORT OF LATE 1970 (TRANSMITTED WITH OTTAWA A-29 OF JANUARY 21, 1971), ALTHOUGH SOMEWHAT OUT OF DATE, MAY BE USEFUL BACKGROUND.

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